
APRIL, 1943

# BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

# Review of Seventh District Business

## *Activity Reflects Shifting Requirements of War*

Throughout the first quarter of 1943, Seventh District business activity reflected directly the shifting requirements of war which continually upset efforts to achieve balance in the war economy. The home front has now become very "fluid" so that many individuals and businesses currently live on a day-to-day basis and make few plans with any degree of certainty for more than a short period ahead.

During March this fluidity in the District was intensified by: the order establishing a 48-hour workweek in critical labor shortage areas; inclusion of the Gary-Hammond-South Chicago (Calumet) area in this classification; further attempts to reduce labor shortages in industry and agriculture; drives to minimize worker absenteeism; revised and expanded war production schedules; mounting Selective Service inductions; broad extension of food rationing; payment of record Federal income taxes; a continued wave of retail buying at a rate faster than the goods can be replaced; and an increasing toll of businesses hit by wartime restrictions and shortages—all in a setting rife with inflationary dangers.

### MANPOWER PROBLEM PERSISTS

The lack of manpower now is and appears likely to continue indefinitely during the war as the key deterrent to production of goods for war and civilian use. Farmers, basic material producers, transportation firms, and manufacturers demand more and more workers and the retention of their present labor supply. To improve the utilization of workers now employed, the President by Executive Order established a 48-hour minimum workweek in critical labor shortage areas. Presently affected within the District are: Detroit, Michigan; Sterling, Illinois; and Manitowoc, Wisconsin. On May 1, the order will become fully effective in the Gary-Hammond-South Chicago (Calumet) section, which was only recently classified as a critical labor shortage area.

The Chicago region, excluding the Calumet section, has been designated by the WMC as an area of "anticipated critical labor shortage" in which only renewals of contracts at present levels of production (requiring no additional workers) should be made, and in which "no new contracts should be placed if alternative facilities for their production exists elsewhere." This latter restriction has aroused considerable local and state discussion over whether an actual labor shortage exists in the Chicago area. The WMC estimates that the additional worker demand in 1943 in the Chicago area will be 305,000 workers against a normal supply of only 92,000 workers, making a shortage of 213,000 persons to be met principally by bringing more women into the labor force, withdrawals from trade and service activities, and layoffs in construction employment. These figures have been questioned in light of reported unemployment data. The shortage classification currently remains in force. An estimated 229,000 additional workers will be needed in the Detroit area by the end of this year.

Revisions in Selective Service classifications, including the modification of a special class for men 38-45, the immediate induction of childless husbands, and not far distant induction of fathers, have caused some further shifts to more "essential" employment. In some communities, a movement from industrial to agricultural—more readily deferable—occupations has been observed.

### FARM POLICY PROBLEMS

With huge stocks of corn in reserve on farms, price policies have been under critical examination because of urgent needs for the grain for feed and processing requirements. The ceiling of $1.02 for No. 2 yellow at Chicago was recently raised 5 cents, thus allowing at once a rise which it had been planned to accrue at one cent a month through the remainder of the season. It is hoped that this rise will accelerate the movement of corn to markets.

There has been and continues to be much talk of a ceiling of about $14.50 on live hogs, Chicago basis. But Administrators Davis and Brown have indicated that this will be attempted only as a last resort after the effectiveness of slaughter licensing, rationing, and price ceilings has been tested over a reasonable time.

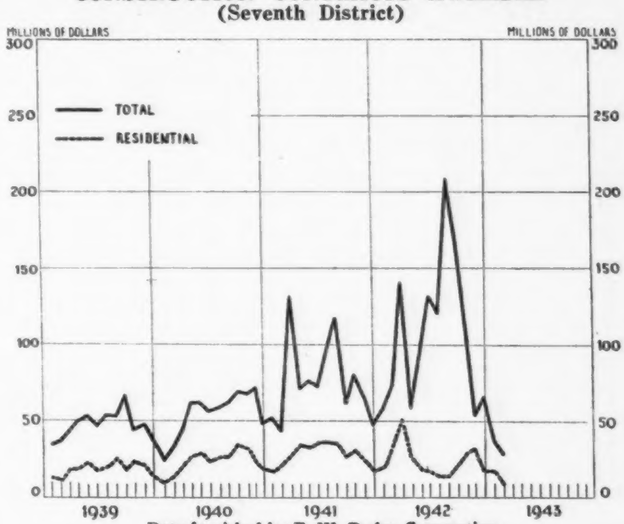
The appropriations committee of the House of Representatives recommended in its report on the budget for the Department of Agriculture that parity payments on the 1943 and 1944 crops be dropped, that the Farm Security Administration be abolished and some of its credit functions be transferred to the Farm Credit Administration, and that the national crop insurance of wheat and corn be abolished. Final outcome will depend upon the action of Congress.

Preliminary crop reports indicate a sharp decline in prospects for the winter wheat crop. Alternate freezing and thawing have caused such damage that considerable abandonment or conversion to succotash is expected. Many farmers in the District are reported to be still harvesting soybeans and corn.

### CIVILIAN FOODS RATIONED

The civilian population in March entered on an indefinite period of restricted food consumption. Initially covering canned goods and processed fruits and vege-

CONSTRUCTION CONTRACTS AWARDED
(Seventh District)



Data furnished by F. W. Dodge Corporation

tables, the ration program was extended at the close of the month to meats, butter, cheese, fats, oils, and canned fish. The inauguration of the point rationing system terminated abruptly a rush of buying which had exhausted supplies of certain food-stuffs, and particularly meat, in many sections of the Seventh District. Canned goods sales lagged following the introduction of rationing, but gained toward the end of March when buyers expanded their purchases in anticipation of the expiration date of coupons. Meat retailers complain that the point-scale for meats is out of balance with consumer demands, leaving many items such as cold meats, to deteriorate in counters.

The public in general has adjusted quickly to the ration program, although some buyers reportedly are still confused by the "two price" system involving coupon values as well as money values. Some dislocations in rationed sales resulting in accumulations of certain goods at both wholesale and retail levels have appeared. Frequent adjustments in "point-values" are expected to keep demand and supply as nearly equal as possible, and particularly to move goods which consumers have indicated a refusal to buy at existing ration values. To clear up confusion in ration banking aggravated by the increased volume of ration coupons, the OPA has ruled that ration bank accounts must be opened and maintained only by retailers whose total food sales for the month of December 1942, or any month since, amounted to $2,500 or more, or who operate more than one store, or who do a mail order business.

## INDUSTRIAL OUTPUT GROWS

From the industries of the Seventh District pours forth a continually greater volume of war goods. Steel ingot production in the Chicago and Detroit areas remained at record tonnage levels throughout March, although new furnace installations at Chicago resulted in a re-rationing of capacity which slightly reduced the percentage of capacity operations temporarily during the month. Confusion over the introduction of the new Controlled Materials Plan persists with some indications that the program will not be fully in effect as soon as contemplated. Principal difficulties are: reported unbalanced allotments, quarterly planning of materials to be used in finished goods having an immediate demand basis, warehousing, and acute shortages of specific kinds and sizes of materials.

Except for gasoline, there is a comparatively tight supply of petroleum products in the Mid-West area. Fuel oil demand continues high despite the lateness of the heating season because of prolonged winter temperatures. Kerosene is becoming increasingly scarce. Refiners and marketers generally have been accumulating stocks of gasoline to meet agricultural demand and for shipment after the opening of the navigation season on the Great Lakes. Recently released figures reveal that gasoline consumption in the Seventh District states in January 1943 was about one-third less than during the same month in 1942, a slightly larger decline than for the nation as a whole. Despite increased military requirements and seasonal expansion of civilian uses, the overall demand for petroleum products in April is expected to fall 10 per cent below actual consumption in April 1942.

Contraction in the volume of new orders received by machine tool firms in recent weeks foreshadows adjustments for the industry including substantial conversion to direct war material production during coming months. Present output remains at about capacity, but a decline in total machine tool demand is now apparent as an increasing proportion of industrial war plants becomes "tooled up" for production.

Following the greatest wave of buying in any February on record, department store sales leveled off in March. Figures for separate departments within stores reveal that the February avalanche of purchases caused sales to more than double their February 1942 volumes in yard goods; women's and misses' coats, suits, and dresses; juniors' and girls' wear; furs; and luggage. As would be expected from mounting Selective Service inductions, sales of men's wear increased very much less than women's. Boys' clothing and furnishings sales advanced almost 75 per cent over February 1942.

The volume of construction work continues downward. Private building is now limited to war housing; war plant construction is declining rapidly; and military cantonments are now largely completed. Building material sales likewise are falling off except for military use. Building tradesmen are being gradually released from employment in some regions providing a small reservoir of labor for war industries.

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# Changes War Has Brought in Agriculture

## *Farmers Face New and Complex Problems*

The distortions this war has brought upon the economy of the nation are known in a general way by most of us. In agriculture, wide publicity has been given to food shortages, rationing, black markets, labor and machinery difficulties, and price control measures. Many of these problems are critical and complex. Wars always raise a multitude of acute emergencies. The forces at work cause emergencies to spread rapidly and often unexpectedly like a forest or prairie fire from one area to another. The present scene shifts so rapidly that one has little chance to view and understand it before it changes unrecognizably. Yesterday's surplus becomes today's deficit. Present emergencies give way shortly to new difficulties transcending and dwarfing the old ones. Confusion in these circumstances is unavoidable. Attempts to reduce the number of changes to measurable values are confronted by the lag between event and the tabulation of data, and to some extent by the fact that statistics lose some of the significance they possess in more normal times. But the world is now in the fourth year of the war, and without bringing the picture of the economic situation down to the last minute, it is nevertheless possible to examine quantitatively some of the changes that the war has brought to Seventh District agriculture since 1939. Let us survey briefly the changes in production, in prices and incomes, in labor and machinery, and in agricultural credit.

### PRODUCTION

The major war job for agriculture has been to shift the emphasis from the less to the more urgently needed commodities, and to expand production along the lines most urgently needed. Production goals were set up by the Department of Agriculture in the summer and fall of 1941. Then came the entry of the United States into hostilities, following the attack upon Pearl Harbor. This rather unexpected turn of events necessitated a revision of production goals, especially to offset the changed conditions in the Pacific area with respect to vegetable oils. But even before the production goals were set up, the agriculture of the nation was feeling the effects of the war because of national policies with regard to lend-lease.

In making production comparisons with pre-war years, it must be emphasized that some of the excellent results shown for 1941 and 1942 were the fortuitous benefits of weather and growing conditions substantially above "normal." In spite of the fact that until comparatively recently corn acreage has been under AAA control, the 1942 production of corn in the District states was substantially above the 1939 figure, with Illinois showing the greatest difference amounting to 5 per cent. Production was one-fourth to one-fifth above the pre-war 1935-1939 average in the corn states of the District, although it should, of course, be borne in mind that the pre-war average was slightly below normal due to 1936 drouth conditions.

Cattle production, which in general has not received the encouragement given to hogs, has nevertheless shown substantial increase. The cycle in numbers has continued upward in recent months. January 1 numbers of beef cattle and calves on farms this year were 32 per cent above the 1935-1939 average for the District states. This was somewhat more of an increase than the 22 per cent shown for the United States. Individual states of the District all showed increases, ranging from 24 per cent for Wisconsin to 41 per cent for Illinois. Iowa, the most important state of the District with respect to beef cattle numbers, with over 3,000,000 head January 1, 1943, had 32 per cent more on farms this year than it averaged in the five pre-war years.

Hog production has been specifically subject to intense pressure to expand. In fact, feed-grain policy has been largely oriented to stimulating pork output. Increases in sows farrowed since the pre-war years have been of the order of about 50 per cent for the nation and the District states, ranging from 42 per cent for Wisconsin and Indiana to 53 and 56 per cent for Iowa and Illinois, respectively. The expansion from 1939 shows an increase in 1942 of sows farrowed, amounting to almost 20 per cent for the nation and the total of the District states, and ranging from 14 to 21 per cent by individual states of the District.

Less spectacular than the increase in hogs, yet scarcely less important in the farm picture, is the increased output of milk amounting to 19 per cent more in 1942 in the five District states than the pre-war years, and 14 per cent above the 1939 output. Wisconsin output was up 23 per cent from 1935-1939, while Iowa and Illinois showed smaller rises.

Egg production in 1942 was nearly one-third above the pre-war average for the five District states and nearly one-fourth above the 1939 totals. Iowa production was more than one-half larger than its pre-war average and nearly one-fourth above the 1939 level.

The need for edible fats and oils has resulted in a great stimulus to soybean production. To avoid attach-

ing too much wartime significance to the great increases in production of this crop, the reader should be reminded that the production of soybeans was increasing very rapidly in the pre-war years. Nevertheless, the war needs have been a powerful factor in speeding up the expansion. Production in the nation was nearly four times as large in 1942 as in the pre-war years, 1935-1939, and more than double the 1939 total. The District states accounted for nearly three-fourths of the 1942 total, but since the pre-war years the production has been increased at a greater rate outside the District states than in the District. However, 1942 production in the five District states was more than three times that of the pre-war years and double the 1939 total. The increases in individual states of the District are even more striking. Illinois, which in pre-war years produced more than half of the national total and in 1942 more than one-third, showed the smallest relative increase over the pre-war years, amounting in 1942 to two and one-half times the pre-war total. Iowa and Indiana are also highly important sources of soybeans, and Iowa's 1942 production was over six times the pre-war output. Output for Indiana was between three and four times the size of the 1935-1939 production. Totals for Michigan and Wisconsin are less impressive, but the rates of increase against the same pre-war base are striking, with Wisconsin's 1942 crop more than ten times larger, and Michigan's more than eight times.

### FARM LABOR CHANGES

Wide national publicity has been given to various aspects of the farm labor situation. Industry and the military forces have taken a substantial toll of the available farm labor. No accurate estimates are available as to the relative importance of the two destinations of those leaving the farm, but the indications are that in general industry has absorbed about two-thirds and the military forces one-third of those who have left farms. This situation reached a crisis stage that resulted in established procedure for deferment of essential agricultural workers. A number of other programs have been set up to meet the situation, including migration and training of "under-employed" farm hands, the importation of Mexican and other foreign labor, and the organization of urban people into "land armies" to meet crop planting and harvesting situations. The most critical and most difficult aspect of the labor shortage is the lack of highly skilled labor in the dairy and other specialized livestock production enterprises where training requires several months or years of practice and experience.

Indications are that in the Seventh District the shortages became serious during the first half of 1941, that the situation changed little from mid-1941 to mid-1942, and that the third quarter of 1942 saw the problem considerably accentuated. In the last quarter of 1942 the situation eased just a little but yet remained a serious problem. Reports of the Department of Agriculture on farm employment indicate that the average monthly numbers employed on farms in the District in 1942 were 5 per cent less than the pre-war average and 3 per cent less than in 1939, but slightly above the average of 1941. Breaking the reported employment down between family and hired workers shows that the total of family workers was 1 per cent less than the pre-war average and the same as the 1939 average, while hired laborers were 18 per cent less than for the pre-war period, 1935-1939, and 13 per cent less than 1939. Whereas total farm employment and family workers showed increases for 1942 over 1941, hired workers declined 8 per cent for the same period. Further data covering the first quarter of 1943 are not available as yet, but the indication appears clear that the labor situation will have to be met substantially by family work.

### THE WORK BURDEN OF EXPANDED OUTPUT

A rough measure of the added burden of work imposed upon Seventh District agriculture by the expanding production may be seen by converting the acreages, animal numbers, and output into "war units" as drawn up by the Department of Agriculture for use in deferring agricultural labor. A comparison of the resulting totals for 1942 and 1943 with the average pre-war years, 1935-1939, shows that in general the Seventh District states taken together are expected on the basis of 1943 goals and present prospects to "do more" to the extent of nearly 15 per cent more work than was expended in the pre-war years. That effort is expected in the face of a farm labor force which probably will be 5 to 10 per cent less than the employment on the farms in the earlier years. Slightly less effort is expected upon crops as a whole, although such war crops as soybeans and flax will require three times the labor. The increased burden is concentrated on the livestock and livestock product items, where one-third more effort is required than in the pre-war period. On the basis of these calculations, the step-up in burden is not proportionally the same for all the states. Iowa livestock enterprises will apparently require an increase of over 40 per cent in the labor to be expended, followed by Illinois and Indiana with increases of about one-third, and Michigan and Wisconsin with loads one-fourth to one-fifth heavier than in 1935-1939.

Using goals and present indications of the 1943 task, it appears that slightly more work will be required on crops in 1943 than last year and that Iowa, Illinois, and Indiana would be expected to do about 10 per cent more

work on livestock enterprises, while the increase in Michigan and Wisconsin appears to amount to about 5 per cent. The difference in the cases of the latter two states is in part offset by more effort on crops than in the first named three states. These indications may, of course, be upset by weather and growing conditions. But at present they add up to what is very nearly a superhuman task for Seventh District farmers.

### FARM MACHINERY AND EQUIPMENT

With basic materials devoted for the most part to combat implements, the farmer faces a critical situation in farm machinery and equipment. While a small amount of machinery is being manufactured, it is far short of agricultural needs. Even repair parts, which are in some measure being provided, are relatively short. Difficulties have been encountered in rationing the available new machinery so as to get the maximum utilization from the limited quantity available. Higher priorities have been granted for expanding output, but production of these new machines is not expected to begin until fall, and thus will offer no help to the present critical situation. Meanwhile, farm auctions of used farm machinery continue to set unbelievable records of high prices paid for well-used items.

### FARM PRICES

Rapidly rising farm prices have been characteristic of the period since the outbreak of the war. The rises have been fairly uniform throughout the District states (if due allowance is made for the differences in predominant enterprises in the states) and are pretty generally in line with the rise of national averages for commodity groups. The Bureau of Agricultural Economics combined index for all groups on March 15 of this year was 184 as compared with 106, the average for 1935-1939, or a rise of 73 per cent since the pre-war period. Prices of meat animals and of chickens and eggs were 80 per cent above pre-war. Dairy products prices showed an increase amounting to 50 per cent. Grain prices have risen on the whole only 46 per cent above the 1935-1939 level.

Meanwhile the index of prices paid by farmers for all commodities used in living and production, including taxes and interest but excluding labor, had risen by March 15 to 29 per cent above the pre-war level. Farm wage rates were nearly doubled—up 88 per cent. Commodities used in production were up 24 per cent, while items used in family living had risen by 37 per cent.

### GROSS CASH INCOMES FROM FARM MARKETINGS

Increased production and higher prices multiplied together have given the nation in 1942 a gross cash income from farm marketings almost exactly double the average amount received in the pre-war years, 1935-1939. Some of this is the fruit of the very favorable crop yields in 1942.

Although prices of grains have risen less than those of livestock and livestock products, the favorable yields in 1942 resulted in almost as great a relative increase in income from crops as from livestock and their products. For the United States the 1942 cash incomes from farm marketings were 98 per cent above the pre-war average. For crops the increase was 93 per cent, while for the livestock items the total was more than doubled—up 102 per cent. The showing for the five states included in part or wholly in the Seventh District was on the whole even more impressive. Total income was up 109 per cent above pre-war for the five-state total, with income from crops showing an increase of 103 per cent and livestock and their products accounting for an increase of 111 per cent. Illinois, Indiana, and Wisconsin state totals were approximately double the pre-war average, with the income from livestock somewhat more than doubled, while that from crops was about double for Illinois and Indiana but up only about one-half for Wisconsin. Iowa farm income was outstanding in 1942, yielding a gross cash return 131 per cent (considerably more than dou-

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**GROSS CASH INCOME FROM FARM MARKETINGS**
(In millions of dollars)

| | Crops | | | Livestock and Livestock Products | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1935-39 Average | 1942 | Per Cent Increase | 1935-39 Average | 1942 | Per Cent Increase | 1935-39 Average | 1942 | Per Cent Increase |
| Illinois | 166 | 323 | 95 | 301 | 630 | 109 | 467 | 953 | 104 |
| Indiana | 64 | 126 | 97 | 197 | 414 | 110 | 261 | 540 | 107 |
| Iowa | 82 | 217 | 165 | 452 | 1,020 | 126 | 534 | 1,237 | 131 |
| Michigan | 77 | 139 | 81 | 136 | 241 | 77 | 213 | 380 | 78 |
| Wisconsin | 34 | 52 | 53 | 253 | 515 | 104 | 287 | 567 | 98 |
| District States | 423 | 857 | 103 | 1,339 | 2,820 | 111 | 1,762 | 3,677 | 109 |
| United States | 3,364 | 6,484 | 93 | 4,441 | 8,957 | 102 | 7,805 | 15,442 | 98 |

# Operating Ratios of Member Banks

In the past month there has been sent to the member banks of the Seventh Federal Reserve District a schedule of operating ratios of the member banks of this District, containing a series of ratios for each of twelve groups of banks grouped according to size of total deposits. As a part of the schedule sent to each bank, there was included a listing of that particular bank's ratios, in order that the bank may compare its results with the ratios for other banks in the same size group.

The size groups are based on the average total deposits of Seventh District member banks during 1942. The twelve size groups in the study range from the 86 banks with deposits under $500,000 to the 22 banks with deposits of over $50,000,000. The ratios are expressed in percentages and are averages of the ratios of individual banks in each group, rather than ratios based on aggregate dollar figures. While this would be no obstacle to a bank comparing its ratios with other banks of its size, or for a study of comparable results of all banks of the same size, there is not the same congruity when comparing the 1942 group ratios with those of the same size groups of the previous year. This is largely because the unprecedented increase in deposits during 1942 has moved many banks into larger size groups, and there have been some additions to the number of banks included in the study. Thus the comparison of a 1942 size group with the same size group of a previous year would be less likely to be of identical banks than would have been true previously.

The 1942 ratios for the Seventh District are based on 923 banks, whereas those for 1941 were for 832 banks. The result of deposit increases in 1942 can be noted from the fact that there were 17 banks with less than $250,000 of deposits in 1941 and only 7 in 1942, with the result that the under $250,000 grouping was discontinued in 1942. While there were only 14 banks in the District with deposits over 50 million in 1941, there were 22 in this group in 1942.

During 1942 there were 159 member banks in the Seventh District whose demand deposits of individuals, partnerships, and corporations increased more than $1,000,000. These 159 banks include all the larger banks of the District, and their aggregate deposits of this class were 86.3 per cent of the total for the District. The rate of increase in this class of deposits during 1942 by the 159 banks was about the same as for all member banks of the District.

The ratios of the other 764 banks were found to be very similar item by item to the ratios of all the banks (which is not surprising in view of the fact that the ratios are averages of ratios, and those of the largest bank would have no more weight than those of the smallest). The ratios of the 159 banks, however, differ considerably from the all banks' averages, which is doubtless due to the fact that these banks include the larger institutions of the District. They were selected for a special study of deposit increases, but for a comparison of operating ratios of the past two years they constitute an excellent sample group, being identical banks, and having the bulk of the deposits of the District.

The increase in demand deposits of individuals, partnerships, and corporations of member banks in the Seventh District in 1942 was one-third. The 159 banks were divided into two groups, the classification depending on whether the deposit increase was under or over the one-third increase for the District. There were 53 banks having a "below-average" increase and 106 having an "above-average" increase. The ratios of this latter group should be fairly indicative of the effects on banks which have had rapid increases in deposits. They should be of special value at this time in that the deposit increase in banks during 1943 is expected to be much greater than in 1942, and the effects on those banks having above-average increases in deposits in 1942 might be an indication of what can be expected in a greater number of banks in 1943.

The accompanying schedule shows three sets of ratios comparing the results of 1942 with those of 1941. In the first two columns there is shown the average of the ratios for all member banks of the District. In the second set of columns is shown the average of the 53 banks whose rate of deposit increase during 1942 was "below average." In the third set of columns is shown the average of the ratios of the 106 banks whose rate of deposit increase during 1942 was "above average."

In general the ratios present no surprises. They are just about what should be expected as a result of the large increases in deposits during 1942. The most marked results are in ratios affected by the increased investments in U. S. Government securities. The Government security holdings by member banks of this District were $5,780,000,000 at the end of 1942, representing a 100 per cent increase during the year. Total loans stood at $1,966,000,000—a decrease of 12 per cent for the year. Total loans and securities increased 43 per cent.

#### RATIOS TO TOTAL EARNINGS

Net profits decreased for all banks from 27.7 per cent of total earnings in 1941 to 24.1 per cent for 1942. Of the 159 larger banks the decrease was from 24.9 per cent

## OPERATING RATIOS OF MEMBER BANKS IN THE SEVENTH FEDERAL RESERVE DISTRICT

(All ratios are expressed in percentages and are averages of the ratios of individual banks in each group, rather than ratios based on aggregate dollar figures.)

| | All Banks | | 159 Large Banks | | | |
|---|---|---|---|---|---|---|
| | | | With deposit increase "below average" | | With deposit increase "above average" | |
| Number of banks | 923 | 832 | 53 | | 106 | |
| | 1942 | 1941 | 1942 | 1941 | 1942 | 1941 |
| **Ratios to Total Earnings:** | | | | | | |
| Interest and dividends on securities | 29.3 | 25.5 | 36.6 | 32.6 | 33.7 | 28.6 |
| Interest and discount on loans | 52.7 | 56.8 | 38.2 | 40.8 | 43.8 | 48.8 |
| Service charges on deposit accounts | 7.3 | 7.3 | 9.0 | 9.3 | 9.3 | 9.5 |
| All other earnings | 10.7 | 10.4 | 16.2 | 17.3 | 13.2 | 13.1 |
| Total earnings | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Trust department earnings | 3.6 | 3.8 | 7.8 | 8.4 | 4.3 | 4.5 |
| Salaries and wages | 32.1 | 30.8 | 34.9 | 33.7 | 32.9 | 31.8 |
| Interest on time and savings deposits | 14.4 | 15.6 | 11.0 | 11.6 | 10.7 | 12.2 |
| All other expenses* | 26.6 | 26.0 | 28.8 | 28.2 | 29.5 | 29.1 |
| Total expenses* | 73.1 | 72.4 | 74.7 | 73.5 | 73.1 | 73.1 |
| Net current earnings* | 26.9 | 27.6 | 25.3 | 26.5 | 26.9 | 26.9 |
| Net charge-offs (−) or net recoveries (+) | +0.4 | +0.1 | +0.0 | −1.6 | −0.7 | +1.4 |
| Taxes on net income | 3.2 | * | 2.6 | * | 3.2 | * |
| Net profits | 24.1 | 27.7 | 22.7 | 24.9 | 23.0 | 28.3 |
| **Ratios to Total Capital Accounts:** | | | | | | |
| Net profits | 7.4 | 8.9 | 6.9 | 7.9 | 7.9 | 9.5 |
| Cash dividends declared | 2.4 | 2.6 | 2.2 | 2.4 | 2.5 | 2.6 |
| **Ratios to Total Assets:** | | | | | | |
| Total earnings | 2.7 | 3.1 | 2.2 | 2.4 | 2.4 | 2.8 |
| Net profits | 0.7 | 0.9 | 0.5 | 0.6 | 0.5 | 0.8 |
| Government securities | 25.1 | 29.8 | 31.9 | 35.8 | 30.0 | 32.8 |
| Other securities | 10.7 | | 10.9 | | 9.9 | |
| Loans | 27.9 | 33.7 | 20.5 | 23.8 | 23.9 | 29.4 |
| Real estate assets | 1.3 | 1.7 | 1.3 | 1.6 | 1.4 | 1.8 |
| Cash assets | 34.9 | 34.7 | 35.1 | 38.5 | 34.6 | 35.8 |
| All other assets | 0.1 | 0.1 | 0.3 | 0.3 | 0.2 | 0.2 |
| Total assets | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| **Ratios of Capital Accounts to:** | | | | | | |
| Total assets | 9.0 | 10.2 | 7.1 | 7.7 | 7.1 | 8.3 |
| Securities, loans, and real estate assets | 14.2 | 16.1 | 11.0 | 12.9 | 11.0 | 13.1 |
| Total assets less cash assets and Government securities | 25.2 | ** | 24.6 | ** | 22.5 | ** |
| Total deposits | 10.1 | 11.6 | 7.7 | 8.5 | 7.8 | 9.1 |
| **Time Deposit Ratios:** | | | | | | |
| Time to total deposits | 36.2 | 41.2 | 28.3 | 32.3 | 30.1 | 35.9 |
| Interest to time deposits | 1.2 | 1.3 | 0.9 | 0.9 | 0.9 | 1.0 |
| **Ratios to Total Securities:** | | | | | | |
| Interest and dividends on securities | 2.1 | 2.5 | 1.7 | 2.0 | 1.9 | 2.2 |
| Recoveries on securities | 0.2 | 0.3 | 0.1 | 0.2 | 0.1 | 0.2 |
| Profits on securities sold | 0.1 | 0.5 | 0.2 | 0.5 | 0.1 | 0.6 |
| Losses on securities | 0.4 | 0.6 | 0.4 | 0.6 | 0.4 | 0.6 |
| Net return on securities | 2.0 | 2.7 | 1.6 | 2.1 | 1.7 | 2.4 |
| **Ratios to Total Loans:** | | | | | | |
| Interest and discounts on loans | 5.2 | 5.4 | 4.1 | 4.1 | 4.4 | 4.8 |
| Recoveries on loans | 0.5 | 0.4 | 0.7 | 0.4 | 0.3 | 0.3 |
| Losses on loans | 0.2 | 0.3 | 0.2 | 0.4 | 0.1 | 0.2 |
| Net return on loans | 5.5 | 5.5 | 4.6 | 4.1 | 4.6 | 4.9 |

*Income taxes not reported separately in 1941. "All other expenses," "total expenses," and "net current earnings" for 1942 are before income taxes, which item is shown as a separate deduction from "net current earnings."

**Not reported separately in 1941.

to 22.7 per cent for the "below average" banks—less than the all bank decline—but for the "above average" banks was a loss of 5.3 points in a decline from 28.3 per cent to 23.0 per cent. However, the "above average" group had recoveries of 1.4 per cent of gross earnings in 1941 as compared to charge-offs of 0.7 per cent in 1942, which accounts for its much greater decline in net profits. Hence, there is little distinction between the groups in the decline in net profits as a percentage of total earnings.

Salaries and wages are uniformly higher and, with increases in all other expenses and taxes, account for the decline in the ratios of net profits to total earnings. Interest expense ratios declined, obviously reflecting withdrawals of savings for investment in Government securities and a much greater increase in demand deposits than in time deposits which took place during the year.

The most interesting ratio changes are in those for earnings on securities and loans which show the effects of the shift in proportion of holdings between these two classes of assets. Ratios for earnings on securities to total earnings increased from 25.5 per cent to 29.3 per cent for all banks, from 32.6 per cent to 36.6 per cent for the "below average" banks, and from 28.6 per cent to 33.7 per cent for the "above average" banks. Ratios for earnings on loans to total earnings decreased from 56.8 per cent to 52.7 per cent for all banks, from 40.8 per cent to 38.2 per cent for "below average" banks, and from 48.8 per cent to 43.8 per cent for "above average" banks. Manifestly, this is a reflection of the large increase in security holdings by banks, which is more marked in the case of the banks with the larger deposit increases, where such increases have been mostly invested in Government securities. The decline in loans as a percentage of total assets is also large in this group.

Also noteworthy in these ratios is that the proportion of earnings from loans is very much greater than that from investments in the "all banks" ratios, but the difference is not so marked in the case of the 159 larger banks, particularly those larger banks which had a below-average increase in deposits. This rather clearly reflects the fact revealed by the ratios on total assets that on the average the larger banks have a greater proportion of their assets invested in securities than in loans.

## RATIOS TO TOTAL CAPITAL ACCOUNTS

The ratio of net profits to total capital accounts (capital, surplus, undivided profits, etc.) declined from 8.9 per cent to 7.4 per cent for all banks, from 7.9 per cent to 6.9 per cent for the "below average" banks, and from 9.5 per cent to 7.9 per cent for the "above average" banks. Obviously, the increase in deposits during 1942 did not provide sufficient earning power to overcome increases in expenses to maintain the 1941 level of return on capital investment. It will be noted that while the "below average" banks show a lower rate of return on capital investment, they also have the smaller decrease for the year. The slight decline in the ratios of payment of dividends is perhaps an indication of a maintenance of previous dividend payment scales rather than a reduction, in that the 1942 ratios are computed on capital accounts increased by one more additional year's accumulation of earnings retained in the capital accounts.

## RATIOS TO TOTAL ASSETS

Like the ratios to total earnings this series of ratios shows the effects of the 100 per cent increase in holdings of U. S. Government securities by all Seventh District member banks during the year. Total securities investments increased from 29.8 per cent of total assets to 35.8 per cent for all banks, from 35.8 per cent to 42.8 per cent for "below average" banks, and from 32.8 per cent to 39.9 per cent for "above average" banks. In 1942 for the first time for "all banks," aggregate security holdings exceeded total loans. It will be noted in connection with the larger banks that while the ratio of loans to total assets decreased more for the "above average" banks than for the "below average" banks, the latter had a smaller ratio of loans and a larger ratio of securities than the "above average" banks. Apparently the banks having the greatest deposit increase are tending toward a much lesser proportion of their assets in loans.

This increase in U. S. Government securities, which bear a comparatively low yield, is also reflected in the decrease in the average earnings on total assets. Total earnings on assets decreased from 3.1 per cent in 1941 to 2.7 per cent in 1942 for all banks, from 2.4 per cent to 2.2 per cent for "below average" banks, and from 2.8 per cent to 2.4 per cent for "above average" banks. It is interesting to note the lower rate of return on the assets of the larger banks, as shown by the latter two sets of ratios. It is doubtless caused by the fact that smaller banks have a greater proportion of assets in loans, and often have higher average interest rates than do large banks. Large banks also tend to have a greater proportion of their assets in short-term securities, which bear a low yield, because of the greater degree of liquidity characteristic of the larger banks in banking centers, whose demand deposits are usually larger in proportion.

## RATIOS OF CAPITAL ACCOUNTS

With the increase in deposits the ratio of capital accounts to total assets has declined. Also, the ratio of capital to total deposits has declined from 11.6 per cent to 10.1 per cent for all banks, from 8.5 per cent to 7.7 per cent for the "below average" banks, and from 9.1 per cent to 7.8 per cent for the "above average" banks. The capital ratio for all banks declined to nearly the time-honored rule of a desirable minimum for a bank,

namely 10 per cent of capital to deposits.

A new ratio has been added to the study this year to measure the capital accounts in relation to what are commonly referred to as the "risk assets"— that is, total assets less cash and Government securities. The capital accounts to risk assets were 25.2 per cent for all banks, 24.6 per cent for "below average" banks, and 22.5 per cent for "above average" banks. While this ratio was not computed for 1941, it is known that the ratio was lower for that year because of the greater proportion of loans among the assets. This ratio will continue to increase as long as loans decrease and Government security holdings increase. When this trend is reversed, or loans begin to increase in volume, this ratio will then become lower, indicating an unfavorable trend toward a lesser amount of capital in relation to risk assets.

The ratios of time deposits to total deposits show that the increase in deposits is in demand deposits in both large and small banks, and particularly in the larger banks having an above-average increase in deposits. Time deposits decreased as a percentage of total deposits from 41.2 per cent in 1941 to 36.2 per cent in 1942 for all banks, from 32.3 per cent to 28.3 per cent for "below average" banks, and from 35.9 per cent to 30.1 per cent for "above average" banks. The interest ratio indicates a slight reduction in interest payments on time deposits in 1942.

Earnings on securities declined from 2.5 per cent in 1941 to 2.1 per cent in 1942 for all banks, from 2.0 per cent to 1.7 per cent for "below average" banks, and from 2.2 per cent to 1.9 per cent for "above average" banks —obviously the result of increased holdings of Government securities. Profits and losses on sale of securities likewise decreased, and the ratios indicate a continued decline in net return on securities. It is noted that the earnings on securities for all banks for 1940 was 2.7 per cent, while the net return on securities was 2.9 per cent. The rate of decline for 1942 was thus greater than for the prior year.

The ratios indicate a slight lowering on the average of interest rates on loans, with the more marked decrease in the larger banks with "above-average" increases in deposits. Apparently these banks which are growing in size are placing some of their new business at the lower interest rates often charged by large banks.

## CHANGES IN AGRICULTURE

(Continued from page 4)

ble) above the 1935-1939 average. Livestock income was up 126 per cent and that from crops was more than two and one-half times the pre-war level, due principally to the tremendous expansion of soybeans in Iowa. Michigan's gains in gross cash income from farm marketings were not as great as those of the other states, rising 78 per cent above the 1935-1939 average.

### AGRICULTURAL CREDIT

Farmers are turning very substantial proportions of their increased incomes to retiring their debts. From 1940 to 1942 the average number of mortgage loans outstanding held by the Federal Land Banks and Land Bank Commissioners declined over 10 per cent, and the amounts outstanding declined by 15 per cent in the principal farming states. Farm mortgages held by insurance companies were slightly higher at the end of 1942 than in 1940, but were lower than at the end of 1941. Pre-payments on loans by Federal Land Banks and Land Bank Commissioners prior to maturity were nearly three times as large in 1942 as in 1940. Percentages delinquent declined by more than half over the two-year interval.

Commercial banks report a substantial decline in the volume of short-term agricultural loans outstanding and a declining call for new loans. However, loans made by Production Credit Associations have continued to increase through and including 1942, when they were 17 per cent above 1941 and 34 per cent above 1940. Outstanding agricultural paper held at mid-year 1942 by commercial banks, excluding Commodity Credit Corporation paper, was nearly 10 per cent below 1941. The general situation appears to be that in spite of greater capital needs in expanding for the war program, farmers are carrying on with credit use decreased at least slightly because of their increased incomes.

## REVIEW OF SEVENTH DISTRICT BUSINESS

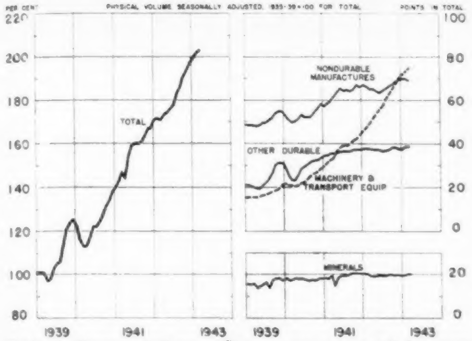
(Continued from page 1)

The U. S. Bureau of Labor Statistics reports an increase of 0.6 and 0.9 per cent in costs of living in Chicago and Detroit, respectively, between January 15 and February 15, 1943. These increases were among the largest in the nation, standing considerably above the 0.2 per cent average for large cities. Food again contributed chiefly to the reported rises. These BLS cost of living indexes, which have been attacked widely for some time as unrepresentative of actual gains in living expenses, are now being revised further. The March cost of living index will not be released until corrections are made to show more fully changes in the pattern of wartime consumption of cost of living items. The current pattern of family expenditures for goods must be known in constructing valid indexes for prices paid. The current study covers, in particular, shifts in food purchases from one type of commodity to another, e.g., changes from canned fruits and vegetables to fresh varieties.

# National Summary of Business Conditions

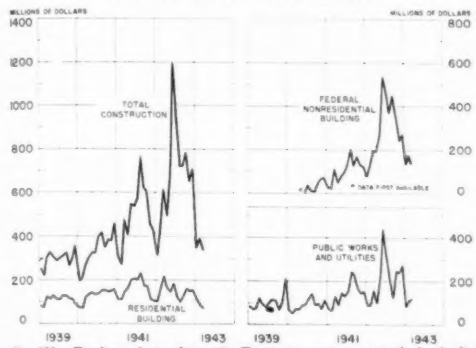
(By the Board of Governors of the Federal Reserve System)

INDUSTRIAL PRODUCTION



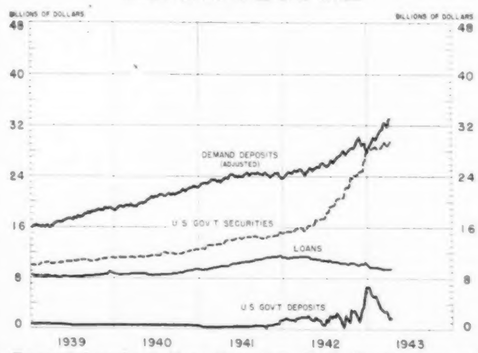

Federal Reserve indexes. Groups are expressed in terms of points in the total index. Monthly figures, latest shown for March.

CONSTRUCTION CONTRACTS AWARDED



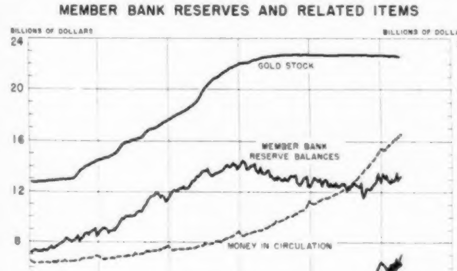

F. W. Dodge data for 37 Eastern states, total includes state and local Government and private non-residential building not shown separately. Monthly figures, latest shown are for March.

MEMBER BANKS IN LEADING CITIES




Demand deposits (adjusted) exclude U. S. Government and interbank deposits and collection items. Government securities include direct and guaranteed issues. Wednesday figures, latest shown are for April 14.

MEMBER BANK RESERVES AND RELATED ITEMS




Wednesday figures, latest shown are for April 14.

Industrial activity increased slightly in March and prices of commodities advanced further. Retail trade in March and the first half of April was in large volume, although reduced from the February peak.

**Industrial Production**—The Board's seasonally adjusted index of industrial production advanced from 202 per cent of the 1935-39 average in February to 203 in March. The rise in total output continued to reflect chiefly increased production in the machinery and transportation equipment industries producing armaments. At merchant shipyards 146 ships were delivered in March. Completions totaled 1,516,000 deadweight tons, an annual rate of more than 18,000,000 tons.

Steel mills operated at peak levels. Production of lumber, however, increased less than usual in March, continuing the gradual downward trend of production which began a year ago.

Output of fuels reached a new peak in March. Bituminous coal production rose further. Crude petroleum output likewise exceeded the February level as new pipeline facilities for transport of petrolum products to the east coast were completed.

Output of important nondurable manufactures was maintained in March. In most branches of the wool textile industry production increased to new high levels in February and March following a Federal order allowing an increase in wool consumption for the manufacture of civilian fabrics.

The value of construction contracts awarded in March, according to figures of the F. W. Dodge Corporation, continued at a level considerably lower than that for the year 1942, reflecting chiefly the fact that the construction phase of the war program has been largely completed. Awards for residential building declined for the third consecutive month, while contracts for public works were higher than in February.

**Distribution**—Retail sales, which generally increase from February to March, showed little change this year, following the buying wave that swept the country in February. At department stores, where increases in February had been particularly marked, sales declined in March and the Board's seasonally adjusted index dropped from 167 to 135 per cent of the 1923-25 average. Despite this decline, the index continued above the high level that prevailed in the latter part of last year. In the first half of April department store sales increased by about the usual seasonal amount, making allowance for the late date of Easter this year.

Total carloadings of revenue freight in March remained at the February level and other transportation activity was also maintained in large volume.

**Commodity Prices**—Wholesale commodity prices averaged higher in March and the early part of April reflecting advances in prices of farm products, foods, and a number of industrial commodities. Prices in retail markets also increased further from February to March, with relatively sharp advances in food prices.

On April 8 an executive order was issued directing that ceiling prices be placed on all commodities affecting the cost of living, that further increases in ceilings be prevented except to the minimum extent required by law, and that excessively high prices be reduced. Following this and announcements of particular Federal actions to safeguard the stabilization of prices, including an order reducing railroad freight rates, wholesale prices of some commodities declined and on April 16 were lower than at the beginning of the month.

**Bank Credit**—Excess reserves at all member banks, which decreased during the latter half of March from 2.2 billion dollars to 1.5 billion, subsequently rose to 2.6 billion on April 19. In the first week of April, the increase resulted largely from substantial Reserve bank purchases of Government securities; subsequently excess reserves were made available by a decline of a billion dollars in required reserves, which resulted primarily from large payments to War Loan accounts for Government securities sold to bank customers. This caused a shift from customers' deposits, subject to required reserves, to Government deposits which have recently been exempted from such requirements.

Government security holdings at reporting banks in 101 leading cities increased substantially during the first two weeks of April following declines in the latter part of March, which had resulted mainly from bill sales by banks in New York and Chicago. Holdings of certificates, notes, and bonds increased over the 4-week period ended April 14. Commercial loans at all reporting banks declined by about 210 million over the 4-week period. At New York City banks loans to brokers and dealers increased steadily over the period, especially in the week of the 14th at the beginning of the War Loan Drive. Deposits, other than those of the United States Government, increased further in March and the early part of April, but were drawn down sharply around the middle of April to make payments for purchases of new Government securities.

SEVENTH FEDERAL

RESERVE DISTRICT